

AR31

# ORION PETROLEUM LTD.

Annual Report 1979





# Highlights

- November 1979, Orion Petroleum Ltd. is activated as a company engaging in oil and gas exploration in the United States. A new Chairman and President are recruited.
- \$1 million in equity financing is raised in the form of a 10% convertible preferred in February 1980.
- March 1980, the Orion Royalty Fund, Ltd., is closed in the amount of \$3.7 million to acquire royalty interest in the United States, primarily in the Tuscaloosa Trend and in the Williston Basin.
- Orion Petroleum Ltd. forms a \$1.75 million Joint Venture to generate prospects in Oklahoma, April 1980.
- May 1980, Orion Petroleum Ltd. files for listing on The Toronto Stock Exchange.
- May 1980, Orion Petroleum Ltd. announces the opening of an exploration office in Oklahoma City.

# REPORT TO SHAREHOLDERS

In November, 1979, Orion Petroleum Ltd., was formed as the successor to Westgrowth Investments Limited, signalling the conversion of Westgrowth from a dormant corporation to an active oil and gas exploration entity. Presently, all of the Company's exploration activity and a majority of its assets are located in the United States with headquarters in Dallas, Texas.

The Company will fund its initial exploration efforts through limited partnerships with substantial individuals, institutions and corporations seeking direct investment in oil and gas and through joint ventures with industry partners. Over the intermediate term, the intent is to build our own technical staff with prospects generated in-house to be evaluated through a combination of partnerships, joint ventures and internal cash generation.

Since the activation of Orion Petroleum in November, the Company has raised \$5.51 million in two programs. The first program comprised a \$3.76 million limited partnership to acquire royalties and leases in the United States with the primary emphasis on the Tuscaloosa Trend of Central Louisiana and the Williston Basin of Montana and North Dakota. The second was the formation of a \$1.75 million joint venture with an industry partner to generate prospects in Oklahoma. Offerings of similar funds and joint ventures are anticipated later this year.

In the first quarter of 1980, a \$1 million convertible preferred issue was sold privately, strengthening the Company's balance sheet and providing additional funds for operations.

The Company recently applied for listing on The Toronto Stock Exchange. Such listing should provide a more orderly market for the Company's shares.



*Peter R. Vig and Jack L. Woods*

We regard the outlook for the oil and gas industry in the United States to be exceptionally attractive for the foreseeable future. Well head prices for new oil approaching U.S. \$31 per barrel, net of the recently enacted Windfall Profits Tax, provides a strong incentive for new exploration. The economic incentives for gas exploration are also favourable, particularly for deep gas below 15,000 feet where prices are decontrolled. We look forward to reporting on your Company's progress during the year.

On behalf of the Board

**Peter R. Vig**  
Chairman and  
Chief Executive Officer

**Jack L. Woods**  
President and  
Chief Operating Officer



# EXPLORATION ACTIVITIES

## Orion Royalty Fund

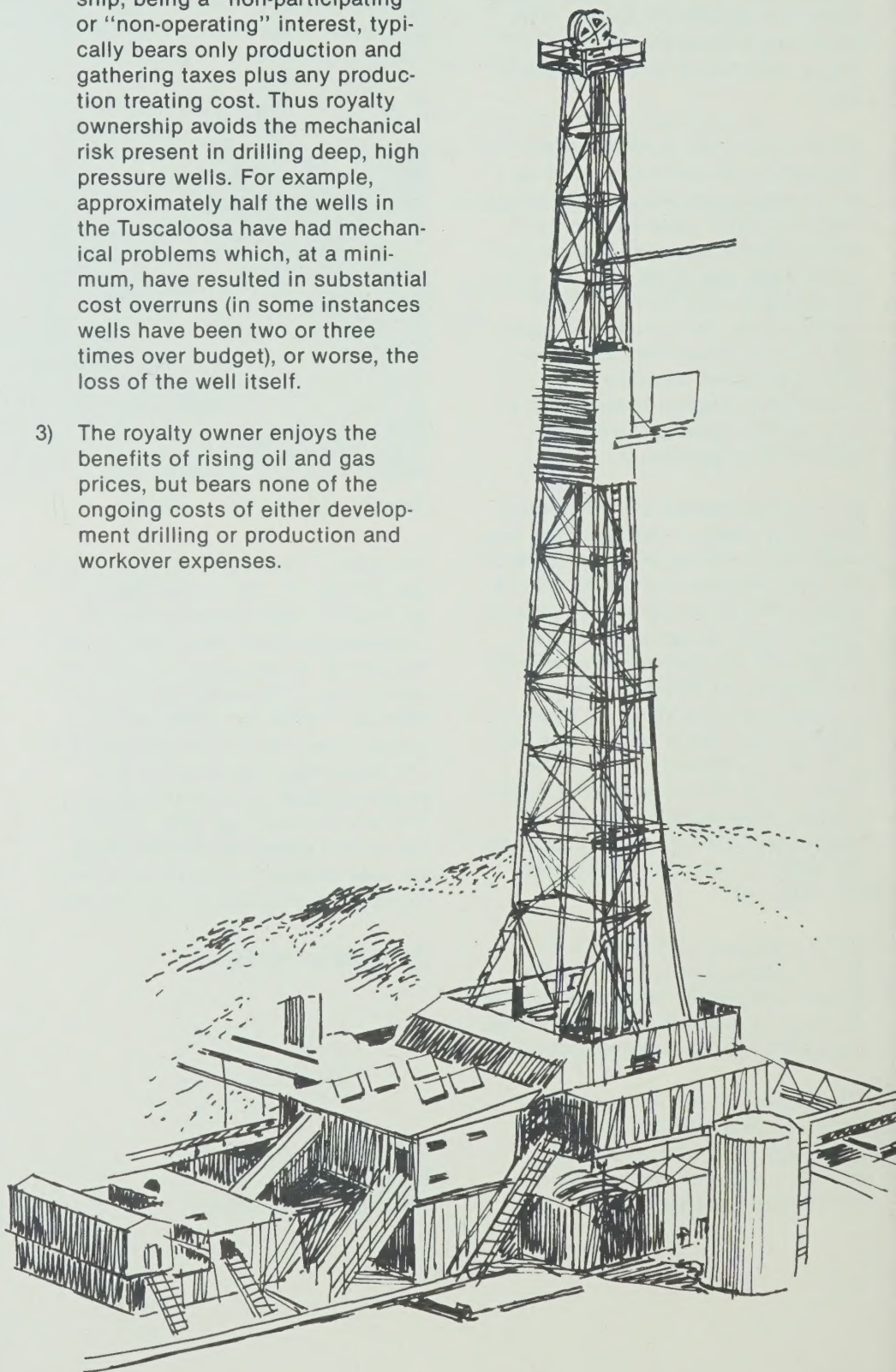
On March 31, 1980, the Orion Royalty Fund closed with a total of \$3,755,000. While these funds are to be used primarily for the acquisition of wildcat royalty, the Orion Royalty Fund has the flexibility to acquire proven and semi-proven royalty as well as undeveloped acreage. The intent with regard to wildcat royalty is to buy on specific prospects which are already drilling or on those which, as ascertained to our satisfaction, are to be drilled within the next six months.

The exploration techniques that will be employed in selecting the prospects on which to buy royalty are the same as any other exploration play, such as, gravity, seismic and stratigraphic studies.

Orion intends to buy royalty under 50 to 60 prospects, primarily in the Tuscaloosa Trend in Central Louisiana and the Williston Basin of Eastern Montana and North Dakota.

The basic appeal of royalty ownership is as follows:

- 1) The ability to leverage off the exploration expertise of the major oil companies. Consulting geologists, geophysicists, lease brokers, etc., often-times end up with over-riding royalty under major company prospects. These individuals may elect to hedge their position by selling off a portion of their royalty and riding down the well with the remainder. Typically, an individual or a drilling fund would not be able to participate in the major company's best prospects in a working interest posture.
- 2) A working interest owner must pay its pro rata share of all the costs, risks and expenses of drilling, testing, completing, equipping and operating oil and gas properties whereas royalty ownership, being a "non-participating" or "non-operating" interest, typically bears only production and gathering taxes plus any production treating cost. Thus royalty ownership avoids the mechanical risk present in drilling deep, high pressure wells. For example, approximately half the wells in the Tuscaloosa have had mechanical problems which, at a minimum, have resulted in substantial cost overruns (in some instances wells have been two or three times over budget), or worse, the loss of the well itself.
- 3) The royalty owner enjoys the benefits of rising oil and gas prices, but bears none of the ongoing costs of either development drilling or production and workover expenses.





## Tuscaloosa Trend

Orion Petroleum has selected the Tuscaloosa Trend on the basis of the following:

- 1) Large, gas prone structures.
- 2) Large reserves.
- 3) High success ratio for wildcat drilling (approximately 30%).
- 4) High degree of drilling activity.
- 5) Gas below 15,000 feet not subject to gas price control.

Since the discovery of the False River Field in August, 1975 the Tuscaloosa Play of South Louisiana has become one of the nation's most active and attractive onshore exploration provinces. The Trend which produces principally gas and condensate, covers a 35 mile belt of Cretaceous sediments extending over 200 miles from the Mississippi-Louisiana border northeast of New Orleans through the Baton Rouge area and to the Louisiana-Texas border.

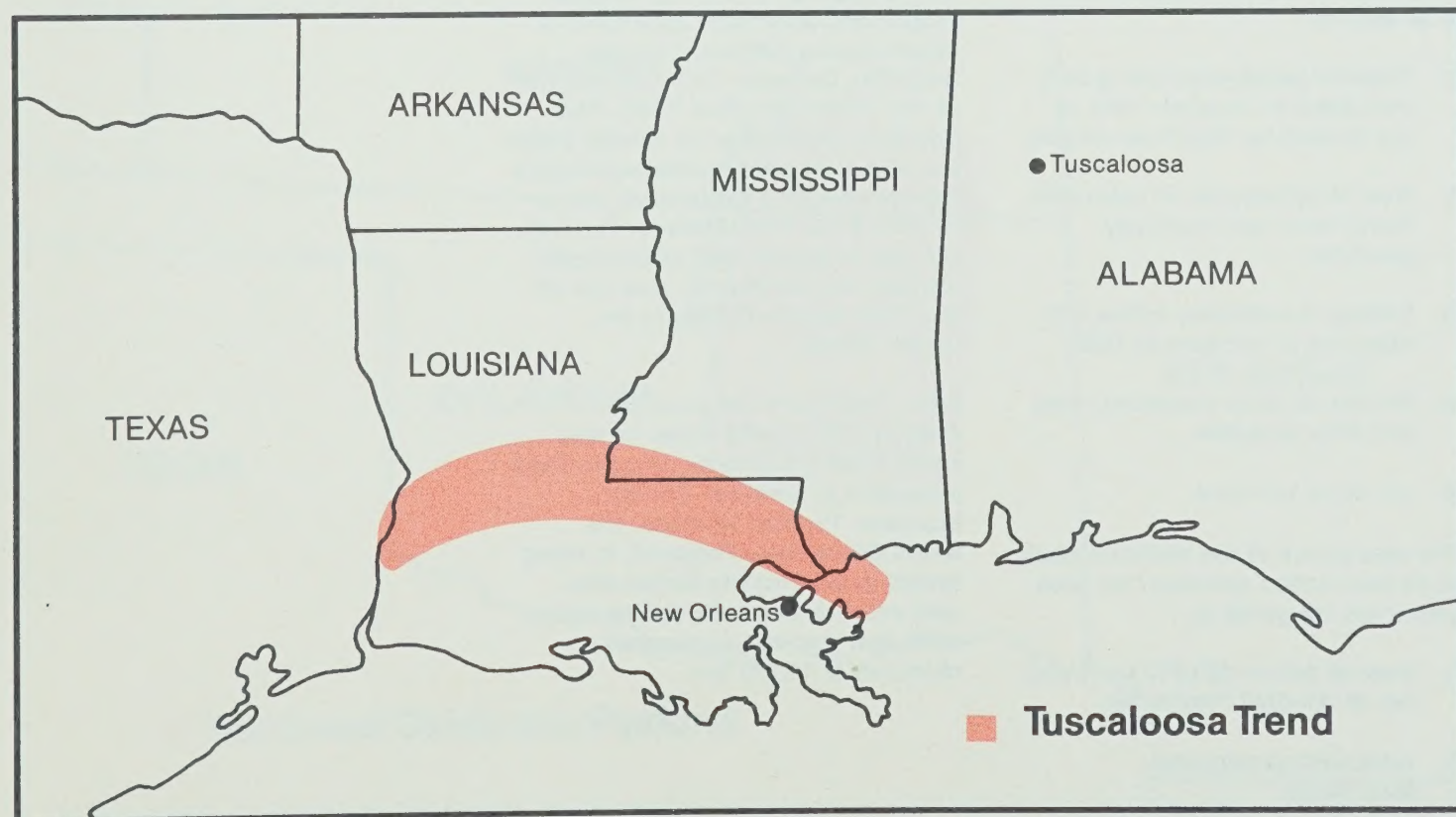
Recent developments in the Trend include the following:

- 1) The discovery of oil in the Cotton et al Number One McGill, Section 86-3S-1W East Feliciana Parish, which is the first oil discovery in the Trend. In addition, this discovery is located in what is known as the "shelf" or "unexpanded" portion of the play. It is the first discovery in this part of the Trend.
- 2) Superior Oil Company has tested, what appears to be, the second "unexpanded or shelf" discovery in its Number One Towles well located in Section 50-2S-5W, West Feliciana Parish.
- 3) Amoco and its partners extended Tuscaloosa production approximately 14 miles to the southeast with their Number One Barnett Heirs well located in Section 20, T6S-R3E Livingston Parish, Louisiana. This is the discovery for the Lockhart Crossing Field. The operator announced this well

as having in excess of 90 feet of pay. Following this discovery, 11 wildcats are presently drilling or under permit in Livingston Parish.

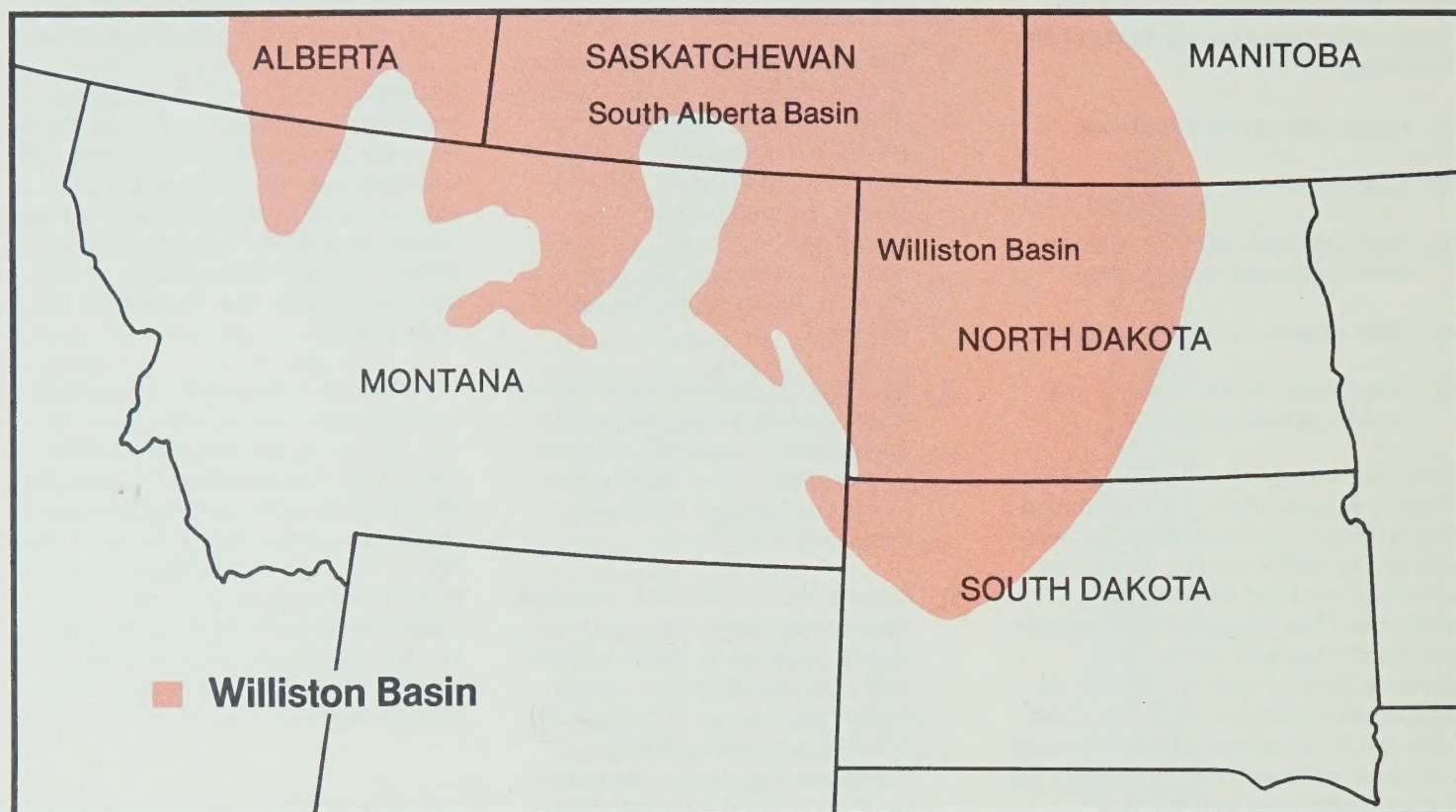
As of May 1980, one potential new discovery in addition to 15 new fields had been discovered in the Trend. Of late, 89 wells, 48 of which are wildcats, are either under permit, drilling, testing or completing in the Trend. Drilling activity will continue to be strong and additional discoveries are anticipated.

The Company has recently acquired approximately 150 royalty acres located in and around two wells in Livingston Parish. These include the Mid-America Oil & Gas No. 1 Butch Calmes which is drilling below 12,000 feet in Section 47, 5S-3E and the Shell Number One Caraway, a proposed location in Section 22, 5S-3E. We are also actively negotiating several royalty parcels in the Tuscaloosa.





## Williston Basin



Our rationale for the Williston Basin is as follows:

- 1) Detailed geophysics has greatly increased the success ratio in the Ordovician Red River oil play.
- 2) New Mississippian oil reservoirs being found add multi-pay potential.
- 3) Drilling is extremely active and expected to increase in 1980.
- 4) Recent oil price increases make this area attractive.
- 5) Oil prone province.

The resurgence of the Williston Basin as an exploration province has been principally triggered by:

- 1) New oil price—\$31-\$32 per barrel net of Windfall Profits Tax.
- 2) Advanced geophysical techniques.

The resurgence of drilling has also established additional objectives of Mississippian (Mission Canyon, Ratcliffe), Devonian (Duperow) as well as the Ordovician (Red River). The Red River structures are usually small but advanced geophysical techniques have enabled the exploration teams to reduce the risk of failure. Through the use of seismic and stratigraphic studies, the Williston is now one of the most active oil plays in the United States.

Orion Petroleum Ltd. recently acquired 322 royalty acres located under 4,025 gross lease acres in three prospects in Sheridan County, Montana. The first of these, the South Goose Lake Prospect, is being tested by an Anchutz Corporation well which is currently drilling below 8,000 feet towards a proposed objective of 11,200 feet.



## Joint Venture Exploration Office— Oklahoma City

In April 1980, Orion concluded a Joint Venture Agreement for an exploration office in Oklahoma City.

The intent of the Joint Venture is to generate and assemble prospects. While either our Partner or Orion may join in the drilling of the initial or other exploratory wells on these prospects, the general intent is to have others assume the exploratory drilling risk in these prospects. As such, the Joint Venture would benefit from a carried interest in the exploratory well and have the ability to participate in subsequent development or stepout drilling.

In general, the Joint Venture plans to sell off prospects generated by the Oklahoma City office to industry partners on a promoted basis. A typical promotion would involve the

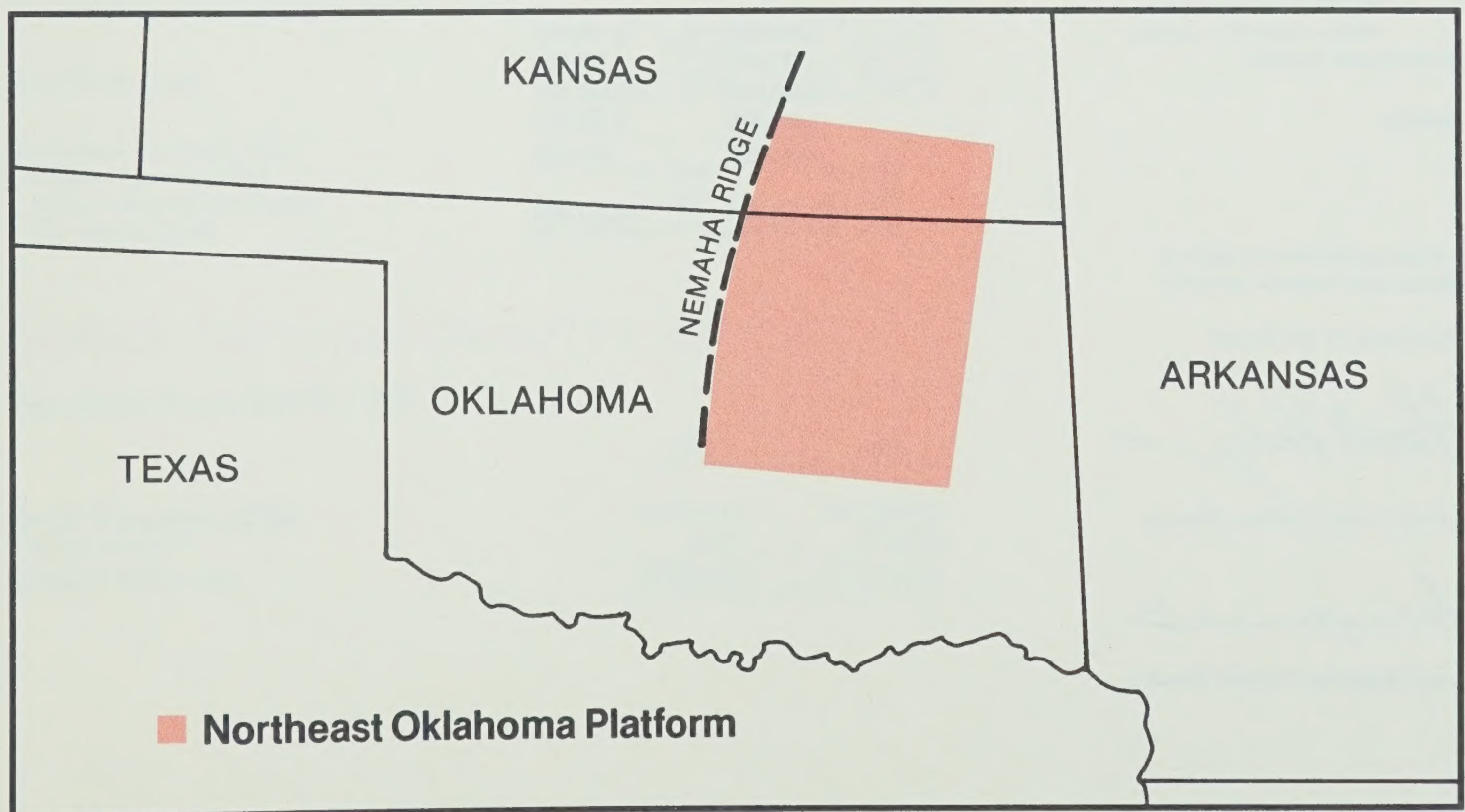
Joint Venture selling off a 75% working interest in the prospect for 100% of the prospect cost; said costs include acreage, seismic, if any, overhead and the cost of drilling the first exploratory well on the prospect to casing point. As a result, the Joint Venture realizes a recovery on its lease acquisition cost, an overhead fee and a carried 25% interest to casing point.

### Exploration Plans

We have retained a prospect generator to work primarily the area described as the Northeast Oklahoma Platform.

The prime area of exploration is situated on the eastern flank of the Central Oklahoma Arch, which is often referred to as the Nemaha Ridge, and is a part of the Northeast Oklahoma Platform.

Stratigraphically, the prospective section will include Pennsylvanian, Mississippian and Ordovician units that have already been proven productive in the trend of both oil and gas. We plan, however, to concentrate on oil prospects as much as possible. The exploration techniques that will be used in selecting the prospects will be a combination of stratigraphic studies, structural mapping, seismic and a detailed analysis of well records for oil and gas shows. Through the above combination of techniques, we believe we can define and lease economic oil and gas prospects in this trend. The traps will be both structural and stratigraphic. The depth of the wildcats necessary to test these prospects will range from 4000 feet to 9000 feet.



## CONSOLIDATED BALANCE SHEET

as at December 31, 1979

	1979	1978
<b>ASSETS</b>		
<b>Current</b>		
Cash and term deposits	\$ 576,579	\$ 1,242
Accounts receivable	3,935	—
Prepays and other	7,252	—
	<u>587,766</u>	<u>1,242</u>
Investments (note 2)	496,498	1,256,438
Fixed Assets, at cost	47,649	—
	<u>\$1,131,913</u>	<u>\$1,257,680</u>

## LIABILITIES

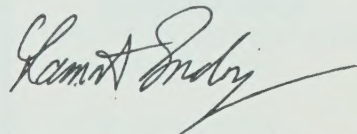
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 50,576	\$ 14,853
Income taxes payable	—	37,834
Current maturities of long-term debt	—	215,100
	<u>50,576</u>	<u>267,787</u>
Long-Term Debt		<u>25,000</u>

## SHAREHOLDERS' EQUITY

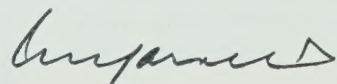
<b>Capital Stock (note 3)</b>		
Issued		
1,718,771 Common shares	2,246,898	2,138,898
(1978—1,518,771 shares)	161,309	161,309
<b>Contributed Surplus</b>	<u>2,408,207</u>	<u>2,300,207</u>
	<u>1,326,870</u>	<u>1,335,314</u>
<b>Deficit</b>	<u>1,081,337</u>	<u>964,893</u>
	<u>\$1,131,913</u>	<u>\$1,257,680</u>

Lease commitments (note 4)  
Subsequent events (note 5)

Approved by the Board



Lloyd Lamont Gordon, Director



John Robertson Yarnell, Director



## CONSOLIDATED STATEMENT OF EARNINGS

Year ended December 31, 1979

	1979	1978
Revenue		
Interest	\$ 36,509	—
Costs and expenses		
General and administrative	204,068	\$ 25,615
Interest	4,919	24,111
Income taxes	—	37,964
	208,987	87,690
Loss from continuing operations	172,478	87,690
Share of income (loss) of discontinued operations (note 2)		
Almark Resources Ltd.		
Mud logging division	45,697	61,023
Air drilling division	—	(44,944)
Share of affiliate's income		
Westgrowth Petroleums Ltd.	—	11,894
	45,697	27,973
Loss before extraordinary items	126,781	59,717
Extraordinary items		
Gain on disposal of shares of Westgrowth Petroleums Ltd.	219,695	—
Provision for loss on disposal of Almark Resources Ltd. divisions (note 2)	(84,470)	(100,285)
Reduction of income taxes resulting from utilization of loss carry-forward	—	130
	135,225	(100,155)
<b>Net Income (Loss)</b>	<b>\$ 8,444</b>	<b>\$ (159,872)</b>
Net income (loss) per share		
Continuing operations	\$ (.10)	\$ (.06)
Before extraordinary items	\$ (.07)	\$ (.04)
Net income (loss)	—	\$ (.10)

## CONSOLIDATED STATEMENT OF DEFICIT

Year ended December 31, 1979

	1979	1978
<b>Deficit at Beginning of Year</b>	<b>\$1,335,314</b>	<b>\$1,175,442</b>
Net income (loss)	8,444	(159,872)
<b>Deficit at End of Year</b>	<b>\$1,326,870</b>	<b>\$1,335,314</b>



# CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

Year ended December 31, 1979

	1979	1978
<b>Working Capital Derived From</b>		
Proceeds of sale of investment in Westgrowth Petroleums Ltd.	\$ 793,730	—
Almark Resources Ltd., reduction in advances, management fees and interest, net	254,219	\$ 59,126
Issuance of shares	108,000	—
Other	913	—
	<u>1,156,862</u>	<u>59,126</u>
<b>Working Capital Applied To</b>		
Loss from continuing operations	172,478	87,690
Acquisition of minority interest in Almark Resources Ltd.	108,000	—
Fixed asset additions	47,649	—
Retirement of long-term debt	25,000	213,100
	<u>353,127</u>	<u>300,790</u>
<b>Increase (Decrease) in Working Capital Position</b>	<b>803,735</b>	<b>(241,664)</b>
<b>Working Capital Deficiency at Beginning of Year</b>	<b>(266,545)</b>	<b>(24,881)</b>
<b>Working Capital (Deficiency) at End of Year</b>	<b>\$ 537,190</b>	<b>\$ (266,545)</b>



## AUDITORS' REPORT

**Thorne Riddell & Co.**  
Chartered Accountants

To the Shareholders of Orion Petroleums Company Ltd.

We have examined the consolidated balance sheet of Orion Petroleums Company Ltd. as at December 31, 1979 and the consolidated statements of earnings, deficit and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1979 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

A stylized, handwritten signature in dark ink that reads "Thorne Riddell & Co." with a flourish at the end.

Toronto, Canada  
April 28, 1980

Chartered Accountants



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended December 31, 1979

### 1. ACCOUNTING POLICIES

#### (a) Principles of Consolidation

These consolidated financial statements include the accounts of the company, its wholly-owned subsidiaries, Orion Petroleum, Inc. and W. G. Securities Ltd., and on an equity basis, its wholly-owned (1978—84% owned) subsidiary, Almark Resources Ltd. (note 2).

#### (b) Fixed Assets

Fixed assets, principally leaseholds acquired in December of 1979, will be amortized on a straight line basis over the five year term of the lease.

### 2. INVESTMENTS

	1979	1978
Almark Resources Ltd. (formerly Westgrowth Industries Ltd.), at equity		
Shares <sup>*</sup>	\$ 300,000	\$ 322,908
Advances	196,498	358,582
Affiliated company		
Westgrowth Petroleums Ltd., at equity	—	574,948
	<u>\$ 496,498</u>	<u>\$1,256,438</u>

The company obtained approval from its shareholders in meetings held June 28, 1979 and February 5, 1980 to a plan of reorganization wherein the shares of Almark Resources Ltd. were subsequent to December 31, 1979, distributed to the shareholders of the company as a reduction in capital in the amount of \$300,000 on the basis of one share of Almark Resources Ltd. for every two shares of the company held by the shareholders.

The carrying value of the investment at equity in Almark Resources Ltd. has been reduced by a provision for loss of \$84,470 to a carrying value of \$300,000 being the amount ascribed to the distribution to shareholders.

Discontinued operations are summarized as follows:

	Mud logging		Air drilling
	1979	1978	1978
Revenue	\$744,997	\$686,129	\$ 98,782
Costs and expenses*	651,761	566,879	189,266
Amortization of goodwill	46,150	39,900	19,500
Income taxes (reduction)	1,389	18,327	(65,040)
	<u>699,300</u>	<u>625,106</u>	<u>143,726</u>
Income (loss)	<u>\$ 45,697</u>	<u>\$ 61,023</u>	<u>\$ (44,944)</u>

\*Costs and expenses exclude intercompany charges for management fees and interest of \$92,135 in 1979 and \$130,500 in 1978.



**3. CAPITAL STOCK**

The company applied for and received a Certificate of Continuance under the Canada Business Corporations Act dated October 29, 1979.

Authorized capital consists of:

- (a) an unlimited number of common shares without nominal or par value; and
- (b) 100,000 preferred shares carrying a cumulative annual dividend entitlement of \$1.00 per share, redeemable after January 1, 1982, and convertible into 2,000,000 common shares to December 31, 1983 on the basis of 20 common shares for each preferred share.

During the year the company issued 200,000 common shares to which were ascribed a value of \$0.54 each in the acquisition of the 16% equity interest in Almark Resources Ltd. not previously owned.

**4. LEASE COMMITMENTS**

The company is obligated under a lease arrangement for annual payments of \$24,000 from 1980 to 1984 inclusive.

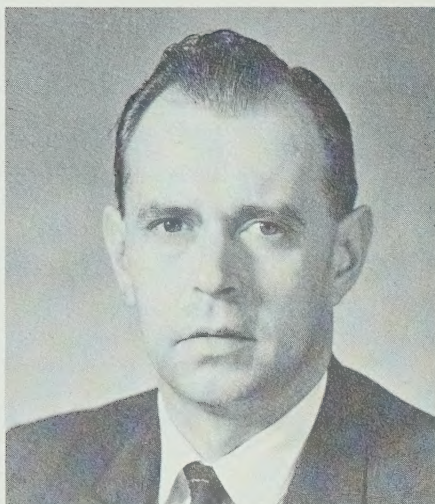
**5. SUBSEQUENT EVENTS**

- (i) Subsequent to the year end the company
  - (a) changed its name to Orion Petroleum Ltd.
  - (b) distributed the shares of Almark Resources Ltd., and recovered from that company advances in the amount of \$100,000 (see note 2).
  - (c) reduced its stated capital by the further sum of \$1,330,000.
  - (d) issued 100,000 preferred shares for cash of \$1,000,000 of which 60,500 shares were to directors and senior officers.
  - (e) issued 700,000 warrants for a total consideration of \$7,000 of which 500,000 were issued to directors and senior officers. Each warrant entitles the holder to subscribe for one common share of the company at \$0.50 per share on or before December 31, 1984.
- (ii) Further, subsequent to December 31, 1979 the company's U.S. subsidiary, Orion Petroleum, Inc. advanced U.S. \$350,000 as the general partner's share of a U.S. \$3.5 million royalty fund, established to acquire producing and non-producing oil and gas royalties, overriding royalties, mineral rights, and leases in the United States.

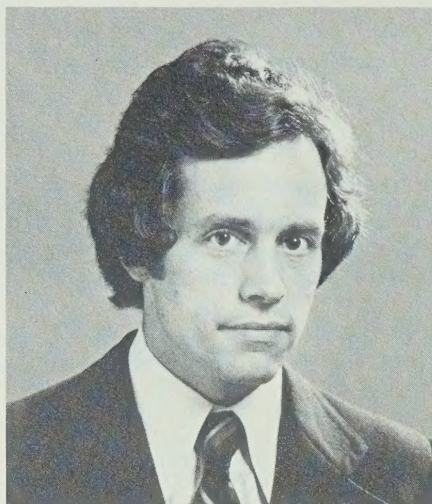
**6. COMPARATIVE FIGURES**

Certain 1978 comparative figures have been reclassified to conform with the financial statement presentation adopted for 1979.

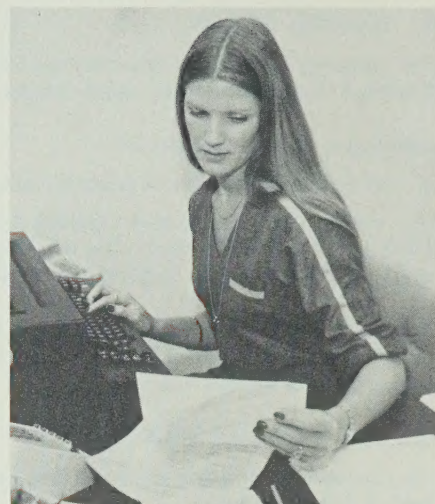




**John Roberts Davidson, Q.C.,**  
*Director*



**David William Drinkwater,**  
*Secretary*



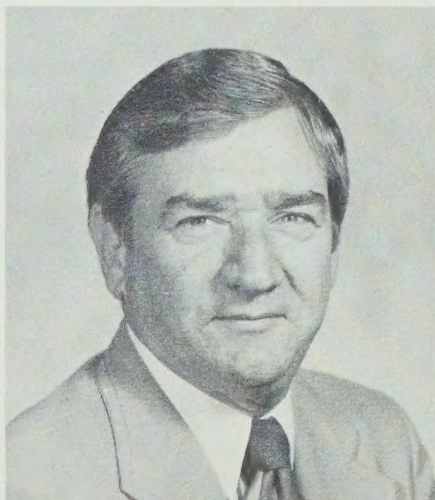
**Melanie Bolin, Executive Secretary**  
*Executive & Operating Office, Dallas*



**Lloyd Lamont Gordon, Director**  
*Vice-Chairman and Treasurer*



**Peter Reynolds Vig, Director**  
*Chairman and Chief Executive Officer*



**Jack Landis Woods, Director**  
*President and Chief Operating Officer*



**John Robertson Yarnell, Director**



# CORPORATE DATA

## Directors

**John Roberts Davidson, Q.C.**  
*Regina, Saskatchewan (Canada)*  
Lawyer, J.R. Davidson, Q.C.

**Lloyd Lamont Gordon**  
*Toronto, Ontario (Canada)*  
Chairman, Gordon Lloyd-Price  
Investments, Ltd.

**Peter Reynolds Vig**  
*Dallas, Texas (U.S.A.)*  
Chairman and Chief Executive Officer  
Orion Petroleum Ltd.

**Jack Landis Woods**  
*Dallas, Texas (U.S.A.)*  
President and Chief Operating Officer  
Orion Petroleum Ltd.

**John Robertson Yarnell**  
*Toronto, Ontario (Canada)*  
President, Yarnell Companies Limited

## Officers

**Peter Reynolds Vig**  
Chairman and Chief Executive Officer

**Lloyd Lamont Gordon**  
Vice-Chairman and Treasurer

**Jack Landis Woods**  
President and Chief Operating Officer

**David William Drinkwater**  
Secretary

## ORION PETROLEUM, INC.

### Directors and Officers

**Peter Reynolds Vig**  
*Dallas, Texas (U.S.A.)*  
Director  
Chairman and Chief Executive Officer  
Treasurer

**Jack Landis Woods**  
*Dallas, Texas (U.S.A.)*  
Director  
President and Chief Operating Officer

**Michael D. Young**  
*Dallas, Texas (U.S.A.)*  
Director  
Vice-President and Secretary

## Audit Committee

**John Robertson Yarnell**  
Chairman

**John Roberts Davidson, Q.C.**

**Lloyd Lamont Gordon**

## Divisions and Subsidiaries

Orion Petroleum, Inc.

## Offices

**Head Office**  
Suite 604  
11 Adelaide Street West  
Toronto, Ontario  
M5H 1L9  
(416) 364-8107

### Executive and Operating Office

510 Expressway Tower  
6116 N. Central Expressway  
Dallas, Texas 75206  
(214) 363-0101

### Exploration Office

Suite 1600  
City National Bank Tower  
Oklahoma City, Oklahoma 73102

## Bankers

Bank of Montreal  
Toronto, Ontario

First City Bank of Dallas  
Dallas, Texas

## Registrar & Transfer Agents

Montreal Trust Company  
Toronto and Regina

## Legal Counsel

Osler Hoskin & Harcourt  
Toronto, Ontario

Burnet Duckworth & Palmer  
Calgary, Alberta

Winstead, McGuire, Sechrest  
& Trimble  
Dallas, Texas

## Auditors

Thorne Riddell & Co.  
Toronto, Ontario

Peat Marwick Mitchell & Co.  
Dallas, Texas

## Stock Exchange

Application has been made to list  
the shares on The Toronto Stock  
Exchange.

The shares currently trade over-the-  
counter Toronto.

## Annual Meeting

The Annual Meeting will be held on  
Thursday, June 26, 1980 at 4:00 p.m.,  
in The Tudor Room West, Third Floor,  
The National Club, 303 Bay Street,  
Toronto, Ontario. Reception to follow  
in The New Bar.



